

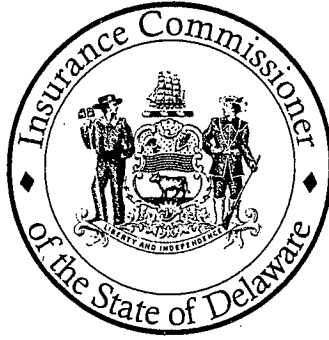
Market Conduct Report
of

UNITED AMERICAN INSURANCE COMPANY

As of

August 12, 2005

Matthew Denn
Insurance Commissioner



Department of Insurance
841 Silver Lake Blvd.
Dover, DE 19904-2465
(302) 674-7300
(302) 739-5280 fax

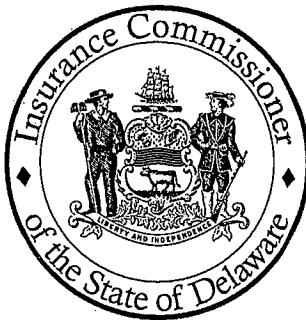
I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON MARKET CONDUCT EXAMINATION, made as of OCTOBER 13, 2005 of the

UNITED AMERICAN INSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

ATTEST BY: *Annette Handy*

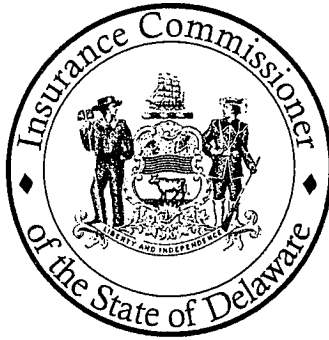
DATE: 26 APRIL 2006



In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 26TH DAY OF APRIL 2006.

Matthew Denn
Insurance Commissioner

Matthew Denn
Insurance Commissioner



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REPORT ON MARKET CONDUCT EXAMINATION
OF THE
UNITED AMERICAN INSURANCE COMPANY
AS OF
OCTOBER 13, 2005

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matt Denn", is written over a horizontal line.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 26TH day of APRIL, 2006.

Table of Contents

SALUTATION	1
SCOPE OF EXAMINATION.....	1
HISTORY AND PROFILE	2
METHODOLOGY	3
A. COMPANY OPERATIONS/MANAGEMENT	4
Standard A7	4
Standard A 09	4
B. COMPLAINTS/GRIEVANCES	5
REVIEW OF PROCEDURES	5
Procedure 01 – Audit Procedure (Internal and External).....	6
Procedure 02 – Assertions of Privilege Procedure.	7
Procedure 04 – Computer Security Procedure.....	8
Procedure 05 – Anti Fraud Procedure.....	8
Procedure 06 – Disaster Recovery Procedure.....	9
Procedure 07 – MGA Oversight and Control Procedure.....	9
Procedure 08 – Vendor Oversight and Control Procedure.	9
Procedure 09 – Customer and Consumer Privacy Protection Procedure	10
Procedure 10 – Insurance Information Management Procedure.....	11
Procedure 11 – Complaint Handling Procedure.	11
Procedure 12 – Grievance Handling Procedure.....	12
Procedure 13 – Advertising, Sales and Marketing Procedure	13
Procedure 14 – Agent produced advertising Procedure.....	14
Procedure 15 – Producer Training Procedure	16
Procedure 16 – Replacement Procedure	17
Procedure 17 – Illustration Procedure.....	17
Procedure 18 – Outline of Coverage Procedure.	17
Procedure 19 – Network Adequacy Procedure.....	18
Procedure 20 – Producer Selection, Appointment and Termination Procedure	18
Procedure 21 – Producer Defalcation Procedure.....	19
Procedure 22 – Prevention of Use of Persons with Felony Conviction Procedure.	19
Procedure 23 – Policyholder service Procedure.	20
Procedure 24 – Premium Billing Procedure.	21
Procedure 25 – Correspondence routing Procedure.....	22
Procedure 26 – Policy Issuance Procedure.....	22
Procedure 27 – Reinstatement Procedure.	24
Procedure 29 – Credible Coverage Procedure.....	24
Procedure 30 – Premium Determination and Quotation Procedure.....	25
Procedure 31 – Policyholder Disclosures Procedure	25
Procedure 32 – Underwriting and Selection Procedure	26
Procedure 33 – Rate and Form Filing Procedure.....	27
Procedure 34 – Termination Procedure	28
Procedure 35 – Underwriting File Documentation Procedure.....	28
Procedure 36 – Underwriting Training Procedure	30

Procedure 37 – Insured or Member Enrollment Procedure.....	31
Procedure 38 – Continuation of Benefits Procedure.....	31
Procedure 40 – Staff Training Procedure.....	32
Procedure 41 – HIPAA Compliance Procedure.....	33
Procedure 42 – Adjuster Training Procedure.....	33
Procedure 43 – Claim Handling Procedure	34
Procedure 44 – Internal Claim Audit Procedure	35
Procedure 45 – Claim File Documentation Procedure	35
Procedure 47 – Reserve Establishment Procedure.....	36
SUMMARY	37
LIST OF RECOMMENDATIONS	37
Procedure 05 – Anti Fraud Procedure.....	37
Procedure 08 – Vendor Oversight and Control Procedure.	38
Procedure 13 – Advertising, sales and marketing Procedure.	39
Procedure 15 – Producer Training Procedure.....	39
Procedure 20 – Producer Selection, Appointment and Termination Procedure.	39
Procedure 22 – Prevention of use of persons with felony conviction Procedure.	39
Procedure 25 – Correspondence routing Procedure.....	40
Procedure 31 – Policyholder Disclosures Procedure	40
Procedure 32 – Underwriting and Selection Procedure	40
Procedure 34 – Termination Procedure	41
Procedure 35 – Underwriting File Documentation Procedure.....	41
Procedure 36 – Underwriting Training Procedure	41
Procedure 40 – Staff Training Procedure.....	41
Procedure 42 – Adjuster Training Procedure.....	41
Procedure 43 – Claim Handling Procedure	41
Procedure 44 – Internal Claim Audit Procedure	42
Procedure 45 – Claim File Documentation Procedure	42
CONCLUSION.....	42

SALUTATION

November 8, 2005

Honorable Matthew Denn
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner Denn;

In compliance with the instructions contained in Certificate of Examination Authority Number 05.714 and pursuant to statutory provisions including 18 Del. C. §318-322, a market conduct examination has been conducted of the affairs and practices of:

United American Insurance Company

hereinafter referred to as the "Company" or as "United American". United American Insurance Company is incorporated under the laws of the State of Delaware. This examination reviewed the operations of United American. The on-site phase of the examination was conducted at the following location:

- 3700 South Stonebridge Drive, McKinney, TX 75050.

The examination is as of August 12, 2005

Examination work was also conducted off site and at the offices of the Delaware Department of Insurance, hereinafter referred to as the "Department" or as "DDOI."

The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The basic business areas that are Subject to a Delaware Market Conduct Examination vary depending on the type on insurer. For all insurers, these areas:

Company Operations/Management
Complaint Handling
Marketing and Sales
Producer Licensing
Policyholder Service
Underwriting and Rating
Claims

Additional areas may be included for an insurer writing Health coverage. Each business area has standards that can be examined and measured, typically utilizing sampling methodologies.

This examination is a Delaware Baseline Market Conduct Examination. It is comprised of two components. The first is a review of the Company's countrywide complaint patterns. This is not a pass/fail test, rather it is aimed at determining if there is a detectable pattern to the complaints the Company receives from all sources.

The second component is an analysis of the management of the various business areas subject to market conduct examination through a review of the written procedures of the Company. This includes an analysis of how the Company communicates its instructions and intentions to its lower echelons, how it measures and monitors the results of those communications, and how it reacts to and modifies its communications based on the resulting findings of the measurement and monitoring activities. The examiners also determine whether this process is dynamic and results in enhanced compliance activities. Because of the predictive value of this form of analysis, focus is then made on those areas where review indicators suggest that the process used by management does not appear to be achieving appropriate levels of statutory and regulatory compliance.

All business areas noted above are addressed to some extent by one or more of the procedures reviewed thus providing a comprehensive view of the Company and its component operations.

This examination report is a report by test rather than a report by exception. This means that all areas tested are described and results indicated. Substantial departure from the norm may result in supplemental review focused on the area so noted.

HISTORY AND PROFILE

United American Insurance Company ("United American") was incorporated in the State of Texas on June 23, 1947, and commenced doing business on August 13, 1947. The Company was re-domiciled in 1982 to the State of Delaware. United American was owned by Globe Life and Accident Insurance Company ("Globe") until 1993, when Globe transferred ownership of the Company to Torchmark Corporation ("Torchmark"), its parent company. United American has been a member of Torchmark since 1981.

United American is licensed to transact business in all states except New York. The Company is also licensed in the District of Columbia and Canada. In Colorado, the Company is licensed to market life, and accident and health coverage.

United American primarily markets senior life and health insurance products, including guaranteed renewable Medicare supplement coverage and long-term care insurance.

METHODOLOGY

This examination is based on the Standards and Tests for a Market Conduct Examination of a Health Insurer found in Chapter XVII of the Delaware Market Conduct Examiners Handbook. This chapter is derived from applicable Delaware Statutes, Rules, and Regulations as referenced herein and the NAIC Market Conduct Examiners Handbook.

Some standards were measured using a single type of review, while others used a combination of all of the types of review. The types of review used in this examination fall into three general categories: generic, sample, and electronic.

A "generic" review indicates that a standard was tested through an analysis of general data gathered by the examiner, or provided by the examinee in response to queries by the examiner.

A "sample" review indicates that a standard was tested through direct review of a random sample of files using sampling methodology described in the Delaware Market Conduct Examiners' Handbook and the NAIC Market Conduct Examiners Handbook. For statistical purposes, an error tolerance of seven percent (7%) was used for claim reviews and a ten percent (10%) tolerance level was used for other types of review. The sampling techniques used are based on a ninety-five (95%) confidence level. This means that there is a ninety-five (95%) confidence level that the error percentages shown in the various standards so tested are representative of the entire set of records from which it was drawn. Note that the statistical error tolerance is not indicative of the DDOI's actual tolerance for deliberate error.

An "electronic" review indicates that a standard was tested through use of a computer program or routine applied to a download of computer records of the examinee. This type of review typically reviews one hundred percent (100%) of the records of a particular type.

Standards were measured using tests designed to adequately measure how the examinee met the standard. The various tests utilized are set forth in the Delaware Market Conduct Examiners Handbook for a Health Insurer. Each standard applied is described and the result of testing is provided under the appropriate standard. The standard, its statutory authority under Delaware law, and its source in the NAIC Market Conduct Examiners Handbook are stated and contained within a bold border within the report.

Each Standard is accompanied by a "Comment" describing the purpose or reason for the Standard. The "Result" is indicated and the examiners "Observations" are noted. In some cases a "Recommendation" is made. Comments, Results, Observations and Recommendations are reported with the appropriate Standard.

A. COMPANY OPERATIONS/MANAGEMENT

Comments: This examination report is not designed to be a pass/fail report with one exception that being the standard that reads as follows:

- “The Company is licensed for the lines of business that are being written.”
- “The Company cooperates on a timely basis with examiners performing the examinations.”

Standard A7

NAIC Market Conduct Examiners Handbook - Chapter XV, §A, Standard 7 & Chapter XVII, §A, Standard 7.

The Company is licensed for the lines of business that are being written.

18 Del. C. §318(a), §505(b), §508(b).

Comments: The review methodology for this standard is generic. This standard has a direct insurance statutory requirement. This standard is intended to ensure that the Company’s operations are in conformance with the Company’s certificate of authority.

Results: **Pass**

Observations: The Company is licensed for the lines of business being written.

Recommendations: None

Standard A 09

NAIC Market Conduct Examiners Handbook - Chapter VIII, §A, Standard 9.

The Company cooperates on a timely basis with examiners performing the examinations.

18 Del. C. §318(a), §320(c), §508(b), §520(b)

3.

Comment: The review for this standard is a “generic” methodology. This standard has a direct insurance statutory requirement. This standard is aimed at ensuring the company is cooperating with the state in the completion of an open and cogent review of the company’s operations. Cooperation with examiners in the conduct of an examination is not only required by statute, it is also conducive to completing the examination in a timely fashion and minimizing cost.

Results: **Pass**

Observations: During the course of the examination United American was provided with fifty-one (51) Information Requests (IR’s). All responses were provided in a timely manner. The Company’s communication with the examiners was responsive. The only delays experienced were due to the original Co-ordinators Handbook being delivered to

United American later than normal. No delays were caused by the Company during the course of the examination.

Recommendations: None

B. COMPLAINTS/GRIEVANCES

Comments: Evaluation of the Standards in this business area is based on Company response to various information requests (IR items) and complaint files at the Company. 18 Del. C. §2304(17) requires the Company to "...maintain a complete record of all complaints received." The statute also requires that "this record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of these complaints and the time it took to process each complaint." Delaware definition of a complaint is: "...any written communication primarily expressing a grievance."

Observations: The Company provided a database of 2,600 logged complaints for the period of examination. A random sample of fifty (50) complaints was taken from the master log and reviewed to compare the accuracy of the databases and to look for any complaint patterns. After the review was completed no complaint patterns were present in either the sample or the master log complaints. The review of the complaint process is noted in Procedure 11 below.

REVIEW OF PROCEDURES

The management of well-run companies generally has some processes that are similar in structure. These processes generally take the form of written procedures. While these procedures vary in effectiveness from company to company, the absence of procedures or the ineffective application of procedures is often reflected in the failure of the various Standards that follow this section of the report. The processes usually include:

- a planning function where direction, policy, objectives and goals are formulated;
- an execution or implementation of the planning function elements;
- a measurement function that considers the results of the planning and execution; and
- a reaction function that utilizes the results of measurement to take corrective action or to modify the process to develop more efficient and effective management of its operations.

The absence of written procedures that provide direction for company staff in its various operational areas tends to produce inconsistent application of the intended process. The same is generally true for the absence of a means to measure the results of the application of procedures and determine that the process is performing as intended.

The reviews in this section of the report are not pass/fail measurements. Rather, they are intended to reflect those management strengths and weaknesses that have a bearing on regulatory compliance issues.

Procedure 01 – Audit Procedure (Internal and External)

Observations: The Company has an audit (internal and external) procedure. This procedure is clear, readable, organized and available to persons needing access to or affected by the procedure. The procedure does not appear to conflict with Delaware statutes or regulations. The fraud manual is available to employees on an anti-fraud intranet site.

The Company's mission of its anti-fraud plan is to prevent, detect, and report fraud by employees or company representatives, providers and other outside parties. This plan encourages recommendations to management for changes in procedures and internal controls that would strengthen the Company's ability to prevent and detect fraud against the Company.

There are two types of fraud: internal fraud and external fraud.

The most common type of internal fraud is agent and employee fraud. Agent accounts are closely monitored and periodically audited to ensure that the agent is properly accounting for financial transactions with the Company. Employees are instructed to advise their supervisors of any irregularities in an agent's account. If any irregularities are discovered, the agent will be asked to immediately respond and provide supporting documentation. The Company has general and financial controls, computer crime and code of ethics in place to prevent employee fraud. The internal audit department reported zero fraudulent claims to all state departments during the period of January 1, 2002, to the present.

Individuals or entities can direct external fraud against a company and the most common form of it is fraudulent claims and the negotiation of counterfeit checks. Although there are similarities among all types of fraud, there are claimant and provider indicators of possible fraud distinct to health and life and accident insurance. Once external fraud is identified or suspected, the matter is promptly reported to the employee's manager. An initial investigation is conducted and if there is merit to the suspicion, details are referred to a member of the Special Investigative Unity by the department manager.

No information regarding measurement structures was provided. No information was provided to determine if management exercises oversight and control of the process. Evidence of the process performing as intended cannot be determined due to lack of measurement structure.

Recommendations: It is recommended that the Audit procedure address utilization of measurement structures to test the functioning of the procedure and revise the procedure when indicated.

Procedure 02 – Assertions of Privilege Procedure

Observations: The Company does not have a written procedure for assertions of privilege.

The Company maintains consistency and control of an assertion of privilege by requesting the legal department review all requests, recommendations and criticisms. Additionally, after the appropriate departments gather the requested information, the legal department has the opportunity to review the information and responses before the responses are such is provided to the examiners. This procedure serves as a formal structure, in that one department conducts daily contact and communication with the examiners, as well as assisting in the gathering and drafting of responses to the examiners' requests.

Recommendations: None.

Procedure 03 – Company Records, Central Recovery and Backup Procedure

Observations: The Company does not have a written central recovery and backup handling procedure. The Company is in the process of developing a formal Disaster Recovery Plan and is intended to have this plan completed sometime in 2005. The plan, when completed will cover Business Continuity for the administrative functions and Mainframe and Network restoration.

No information regarding measurement structures was provided to the Examiners. No information was provided to determine if management exercises oversight and control of the process. Evidence of the process performing as intended cannot be determined due to the lack of a measurement structure.

Although, the Company does not have a formal process in place, they have a contract with a vendor, SunGard, to restore the Company's mainframe, network, and administration operations in Los Colinas and Grand Prairie, TX. They also have three sites in Oklahoma City, the administrative offices downtown Oklahoma City, the mainframe computer facility (referred as Memorial) and the direct marketing/ mail facility.

The Company's computer facility at Memorial is secured by card key access system. Computer operators are on site twenty-four (24) hours a day, seven (7) days a week. Halon, water detection, redundant air conditions, a UPS system, and a diesel generator protect the room. These emergency procedures are documented for the computer operations group to respond to possible emergency situations.

Mainframe system access is restricted and controlled by a secured administration system. Users must log into the system using user id and passwords. The system forces users to change their passwords every forty-five (45) days. Access to all production files are controlled by job functions and are reviewed once a year by the department managers.

Recommendations: It is recommended that the Company creates a formal procedure for Company records, central recovery and backup and establishes measurement structures to test the functioning of the procedure and that management utilize the results of its measurement structures. It is also recommended that management implement procedural revisions for the past three (3) years, if warranted on the results of its findings in its measurement structures.

Procedure 04 – Computer Security Procedure

Observations: The Company has a written computer security procedure in place. The information provided to the Examiners included the security guidelines of privacy practices issued to employees as well as posted on the Company's intranet website. This procedure is clear, readable, organized and available to persons needing access to or affected by the procedure. The procedure does not appear to conflict with Delaware statutes or regulations. The version date of the procedure is June 9, 2000.

Management and employees are responsible for ensuring that company information is completely confidential and is used only for authorized business purposes. All equipment (Servers, PCs, etc.) all software, electronic documents, and files are the property of the company. Unless appropriate security measures are taken, information terminals can easily be accessed.

Network Administrators and Information Systems management are responsible for adequately controlling access to information stored on Network file servers, and access to mainframe information. Other departments, management and employees, however, are responsible for controlling access to information stored on hard disks and other storage media, and for following policies and procedures regarding confidentiality of passwords.

No information regarding measurement structures was provided. No information was provided to determine if management exercise oversight and control of the process. Evidence of the process performing as intended cannot be determined due to lack of measurement structure.

Recommendations: None.

Procedure 05 – Anti Fraud Procedure

Observations: The Company has a written anti-fraud procedure. This procedure is clear, readable, organized and available to persons needing access to or affected by the procedure. Please refer to Procedure 01 above for more information.

Recommendations: It is recommended that the Company establish measurement structures to test the functioning of the procedure for Anti-Fraud and that management

utilizes the results of its measurement structures. It is also recommended that management implement procedural revisions, if warranted, on the results of the findings in its measurement structures.

Procedure 06 – Disaster Recovery Procedure

Observations: The Company does not have a written disaster recovery procedure. The Company is in the process of developing a formal Disaster Recovery Plan and is intended to have this plan completed sometime in 2005. The plan, when completed will cover Business Continuity for the administrative functions and Mainframe and Network restoration. Please refer to Procedure 003 above for more information.

Recommendations: It is recommended that the company formulate, adopt and implement a written procedure for Disaster Recovery. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure and revise the procedure when necessary.

Procedure 07 – MGA Oversight and Control Procedure

Observations: The Company does not use MGA's in their business. This procedure would not be applicable.

Recommendations: None.

Procedure 08 – Vendor Oversight and Control Procedure

Observations: The Company does not have a written procedure for vendor oversight and control procedure.

The Company utilizes five (5) separate vendors: International Outsourcing Systems (IOS), Betty's Data Entry Service, Examination Management Services Inc. (EMSI), Medical Information Bureau (MIB) and Office Max.

IOS- Inquiry cards are imaged and batched into batches of three hundred (300) cards. The batches are then electronically transmitted to El Paso. IOS captures the data from the cards and electronically transmits the data back to the company. The company compares the actual cards to the data and ensures that the cards are keyed accurately.

Betty's Data Entry Service- Inquiry cards are batched into batches of one hundred (100) cards and a batch number is assigned. The courier who picks up the cards verifies the numbers of batches. The data from the cards is captured and returned to the company electronically. Each of the batches carries the batch number originally assigned as a record count.

EMSI- Provides assistance in obtaining signatures of proposed insured's when the submitted direct mail application is not signed by the proposed insured.

MIB-a central computerized facility that keeps on file the health history of applicants for life and health insurance with member MIB companies.

OfficeMax-an outside store utilized by the company for general office supplies. The purchases made by each department are reviewed on a monthly basis to ensure there are no excessive, non-business purchases. Each department within the company is assigned a cost center code. The monthly invoice is reviewed from the standpoint of which departments may be making excessive purchases. The detail of those purchases is reviewed to ensure that they are warranted.

Recommendations: It is recommended that the company formulate, adopt and implement a written procedure for Vendor Oversight and Control. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure and revise the procedure when indicated.

Procedure 09 – Customer and Consumer Privacy Protection Procedure

Observations: The Company has a written customer and consumer privacy protection procedure in place. The information provided to the Examiners included the Health Insurance Notice of Privacy Practices issued to policyholders as well as posted on the Company's intranet website. This procedure is clear, readable, organized and available to persons needing access to or affected by the procedure. The version date of the procedure is April 14, 2003.

Privacy and security are primary consumer concerns and failing to address them will result in a loss of trust and, credibility between the Company and the insurance buying public. The Company is required by the HIPAA Privacy Rules to verify the identity of any person requesting Privacy Health Information. Where the identity and authority of the person is not known, they rely on customary verification procedures, whether oral or written, as a condition of disclosure. In addition, violation of the company confidentiality policies could result in sanctions against the employee, ranging from a verbal warning for unintentional violations, to termination of employment for more serious violations.

No information regarding measurement structures was provided to the Examiners. No information was provided to determine if management exercises oversight and control of the process. Evidence of the process performing as intended cannot be determined due to lack of measurement structure. Revision of the customer and consumer privacy protection process was not provided to the Examiners.

Recommendations: It is recommended that the Company establish measurement structures to test the functioning of the procedure for Customer and Consumer privacy protection and that management utilize the results of its measurement structures. It is also

recommended that management implement procedural revisions for the past three years, if warranted on the results of findings in its measurement structures.

Procedure 10 – Insurance Information Management Procedure

Observations: The Company does not have a written procedure for insurance management.

According to the Company, the process for handling information for underwriting or claims handling is not protected by either Gramm-Leach-Bliley or HIPPA laws. Concerning underwriting, the Summary of Rights sets forth the following:

- the applicant’s rights following an adverse underwriting decision
- the applicant’s rights to access his or her recorded personal information
- the applicant’s rights to correction, amendment, or deletion of recorded personal information

The Notice of Insurance Information Practices is sent to all new insured’s along with a welcome letter that sets forth the company’s privacy policy for the collection and sharing of information, the insured’s right to access information, and the company’s internal protection of information.

Recommendations: None.

Procedure 11 – Complaint Handling Procedure

Observations: The Company has a written complaint handling procedure. The procedure is clear, readable, organized and available to persons needing access to or affected by the procedure.

The following information is the standard procedure for handling each individual Insurance Department and Consumer complaint:

1. Each complaint is date stamped with the date received.
2. Review the nature of each complaint.
3. Set up a complaint card for month end entry into computerized complaint log.
4. Research and obtain information in order to respond.
5. File initial written response with Insurance Department and or complainant.

6. Follow-up with written response and or documentation as required, i.e., written agent response or, claim records clarifying the Company's final disposition, within the allowable time frame for response.

No information regarding measurement structures was provided to the Examiners. No information was provided to determine if management exercise oversight and control of the process. Evidence of the process performing as intended cannot be determined due to lack of measurement structures. Revision dates for the complaint handling process was not provided to the Examiners.

Recommendations: It is recommended that the Company create measurement structures to test the functioning of the procedure for Complaint Handling and that management utilize the results of its measurement structures. It is also recommended that management implement procedural revisions for the past three years, if warranted on the results of findings in its measurement structures.

Procedure 12 – Grievance Handling Procedure

Observations: The Company has a written procedure for grievance handling. This procedure is clear, readable, organized and available to persons needing access to or affected by the procedure.

The Company has two levels of grievance reviews:

First Level Grievance Review

1. Within three (3) business days after receiving a grievance, the Company shall provide the insured with the name, address, and telephone number of the coordinator within the Company, and information on how to submit written material.
2. The Company will issue a written decision to the insured, and if applicable, to the insured's provider, within thirty (30) days after receiving a grievance. The Company will also advise the insured of his or her right to request a second level grievance review and a description of the procedure for submitting a second level grievance review.

Second Level Grievance Review

1. The Company shall, within ten (10) business days after receiving a request for a second level grievance review, provide the insured with the name, address and telephone number of the coordinator for the second level grievance review.
2. The insured also has the right to:
 - a) request and receive all information relevant to the case

- b) attend the second level grievance review
 - c) present his or her case to the review panel
 - d) submit supporting materials before and at the review meeting
 - e) ask questions of any members of the review panel, and
 - f) be assisted or represented by a person of his or her choice, which may include a provider, family member, or an attorney.
3. The review panel shall schedule and hold a review meeting within forty-five (45) days after receiving a request for a second level grievance review.
 4. The insured shall be notified in writing at least fifteen (15) days before the review meeting date.
 5. The insured's right to a full review shall not be conditioned on the insured's appearance at the review meeting.
 6. The Company shall issue a written decision to the insured and, if applicable, to the insured's provider within seven (7) business days after completing the review meeting.

No information regarding measurement structures was provided. No information was provided to determine if management exercises oversight and control of the process. Evidence of the process performing as intended cannot be determined due to a lack of measurement structure. Revision of the complaint handling process was not provided to the Examiners.

Recommendations: It is recommended that the Company establish measurement structures to test the functioning of the procedure for Grievance Handling and that management utilize the results of its measurement structures. It is also recommended that management implement procedural revisions, if warranted, on the results of its findings in its measurement structures.

Procedure 13 – Advertising, Sales and Marketing Procedure

Observations: The Company has a written advertising, sales and marketing procedure. This procedure is clear, readable, organized and available to persons needing access to or affected by the procedure.

The Company makes available to Agents pre-approved, ready-to use print advertisements, as well as sales and advertising materials to assist with the agent's prospecting efforts. Agents have a choice to design their own advertisements; however they must adhere to the following guidelines:

1. Any type of sales or advertising materials such as print advertisements, television or radio scripts, internet website copy, flyers or direct mail lead pieces must be submitted to the home office for written approval prior to publication or use.
2. Proposed advertisements are sent to the marketing department for review.
3. A two-week turnaround time period is to be allowed for the review and evaluation process. If prior state approval of the advertisement is required, additional time must be allotted.
4. The Company bears no part in any expense in preparing or publishing field-generated advertising materials. The Company will not write an advertising copy for individual agents or branches.
5. Any field-generated advertisement, which has not been submitted and approved, should not be used. The Agent must furnish final published advertisements, website addresses, cassette of radio/TV spot, etc. to the home office for the Company's records.
6. The agent may not cut and paste parts of any Company pre-approved materials to create their own sales piece without first sending it to the Compliance division/section/manager for review and approval.

Marketing will review the Agents advertisements for accuracy and style and forward it to the Compliance division/section/manager. Compliance and Legal will review the advertisement and then notify the Agent by e-mail or fax of the changes to the advertisement. If, after reviewing the Home Office's changes, the Agent still wants to proceed, it is the Agent's responsibility to make any changes and return the corrected version to Compliance for written confirmation and approval prior to use. Field generated advertisements are submitted to the state for filing, if necessary. In most states the average turnaround time for approval is sixty (60) days, however some states take longer if objections are raised.

Recommendations: It is recommended that the procedure for Advertising, sales and marketing address utilization of measurement structures to test the functioning of the procedure and revisions to the procedure when necessary.

Procedure 14 – Agent Produced Advertising Procedure

Observations: The Company has a written agent produced advertising procedure. The information provided to the Examiners included the general advertising guidelines issued to employees as well as posted on the Company's intranet website. This procedure is clear, readable, organized and available to persons needing access to or affected by the procedure.

No information regarding measurement structures was provided to the Examiners. No information was provided to determine if management exercises oversight and control of

the process. Evidence of the process performing as intended cannot be determined due to the lack of a measurement structure. Revision of the agent produced advertising process was not provided to the Examiners.

The Company makes available to Agents pre-approved, ready-to use print ads, as well as sales and advertising materials to assist the prospecting efforts. Agents have a choice to design their own ads, but they have to adhere by the following guidelines:

1. Any type of sales or advertising materials such as print ads, TV or radio scripts, internet website copy, flyers or direct mail lead pieces must be submitted to the home office for written approval prior to publication or use.
2. Send the advertisement to the marketing department, attention: Judy Hans, Vice President.
3. Allow a two-week turnaround time for the review and evaluation process. If prior state approval of the advertisement is required, expect additional delays of up to three months.
4. Any field-generated ad, which has been submitted and approved, should not be used more than 60 days without obtaining written re-approval from the home office. This does not include Company provided ads.
5. The Company bears no part in any expense in preparing or publishing field-generated advertising materials. They also will not write advertising copy for individual agents or branches.
6. The Agent must furnish final published advertisements, website addresses, cassette of radio/TV spot, etc. to the home office for the Company's records.
7. The agent may not cut and paste parts of any Company pre-approved materials to create their own sales piece without first sending it to compliance for review and approval.

Marketing will review the Agents ads for accuracy and style and forward it to Compliance. Compliance and Legal will review the ad and at the beginning of the third week, the Agent will be notified by e-mail or fax of the changes to the ad. If after reviewing the Home Office's changes the Agent still wants to proceed, it is the Agent's responsibility to make any changes and return the corrected version to Compliance for written confirmation and approval prior to use. Field generated ads are submitted to the state for filing, if necessary. In most states the average turnaround time for approval is 60 days; some states take longer if objections are raised.

Recommendations: It is recommended that the Company establish measurement structures in place to test the functioning of the procedure for Agent produced advertising and management utilize the results of it measurement structures. It is also recommended that management implement procedural revisions during the past three years, if warranted on the results of findings in its measurement structures.

Procedure 15 – Producer Training Procedure

Observations: The Company has a written producer training procedure. This procedure is clear, readable, organized and available to persons needing access to or affected by the procedure.

The Company's Marketing and Publications Department develops and maintains materials to communicate general underwriting instructions and procedures, company history and current industry ratings. These materials provide the specifications, rates, limitations and exclusions and the features of the company's agent sold insurance policies and insurance related products.

For the development of agent sales and training materials, particular attention is given to designing a layout that includes the following:

1. Establish Company Name and pertinent Company details;
2. Product identification that includes the policy type and marketing name;
3. Identify the policy issue ages;
4. Display the key features of policy including the policy benefits, face amounts/daily room benefits
5. Disclose the limitations and exclusions;
6. Provide an application/enrollment form in which to write the Applicant's data;
7. Provide the additional required forms associated with the sale of the product.

After the agent designs a layout, the company's actuarial, compliance, sales, information technology, claims policy service, legal and new business and underwriting departments review a draft copy of new and or updated materials. Desired changes are returned to marketing for processing. The materials are edited until it is acceptable to all departments and approvals are recorded on a proof attached to the draft document. A final copy of the material is sent to the compliance department for filing. A state approval chart is developed and maintained for the new material and training materials are announced in the monthly magazine. The materials are updated annually or more frequently if the company introduces a new product.

Recommendations: It is recommended that the procedure address utilization of measurement structures to test the functioning of the procedure for Producer Training and revise the procedure when indicated.

Procedure 16 – Replacement Procedure

Observations: The Company does not have a written replacement procedure. No information regarding measurement structures was provided to the Examiners. No information was provided to determine if management exercise oversight and control of the process. Evidence of the process performing as intended cannot be determined due to a lack of measurement structures.

All training of employees involved in New Business regarding replacement practices is performed on the job. Each state has its own requirements regarding the handling of issued business when the replacement question on the application is answered yes. The common theme for direct mail policies in those states that require action is that an appropriate form be included with the issued policy. The Company's policy print program is maintained to identify those states and the appropriate form that is to be produced. To ensure that the process is being followed, management reviews a report on a daily basis that summarizes the number of issues where the replacement question has been answered yes. Any large variances would indicate a problem that would require further investigation.

Recommendations: It is recommended that the Company creates a formal procedure for Replacement and establishes measurement structures to test the functioning of the procedure and that management utilizes the results of its measurement structures. It is also recommended that management implement procedural revisions during the past three years, if warranted on the results of findings in its measurement structures.

Procedure 17 – Illustration Procedure

Observations: The Company does not use policy illustrations.

Recommendations: N/A

Procedure 18 – Outline of Coverage Procedure

Observations: The Company does not have a written procedure for providing outlines of coverage. The Examiners reviewed several items purporting to be the written procedure; however these materials were merely ad hoc descriptions of a process used in the absence of a written structure.

The only health plans currently sold through the Company are Medicare Supplement plans. These policies are sold on a direct mail basis and approved outlines of coverage are included in the solicitation materials. Marketing solicitations are mailed in bulk and before each mailing goes to the Post Office, a package is opened at random to ensure that all of the required materials are included in the mailing package.

No information regarding measurement structures was provided to the Examiners. No information was provided to determine if management exercises oversight and control of the process. Evidence of the process performing as intended cannot be determined due to lack of measurement structures. Revision dates for complaint handling process was not provided to the Examiners.

Recommendations: None.

Procedure 19 – Network Adequacy Procedure

Observations: The Company does not have a written procedure for a network adequacy procedure. No information regarding measurement structures was provided to the Examiners. No information was provided to determine if management exercises oversight and control of the process. Evidence of the process performing as intended cannot be determined due to a lack of measurement structures.

The Company no longer writes health insurance, with the exception of some direct response Medicare Supplement and Accidental Death plans. The Company does not have any Managed Care plans that maintain any type of service networks for the health plans that have been in existence for years. Health plans are limited benefit plans issued on an individual basis. The Company's policyholders can go to any provider they choose.

Recommendations: None

Procedure 20 – Producer Selection, Appointment and Termination Procedure

Observations: The Company has a written procedure for producer selection, appointment and termination procedure. This procedure is clear, readable, organized and available to persons needing access to or affected by the procedure.

The Company appoints both branch agents and general agents. Branch agents are independent contract agents who are trained at the branch office as well as during seminars presented by the senior management members of the company's sales department. General agents are also independent contractors who may sell for companies. No sales quota applies to general agents and their appointment may continue indefinitely as long as his or her license remains in good standing. The Company is legally able to contract with the General Agent so long as he or she does not become the subject of any regulatory action or consumer complaints causing the Company to terminate the agent's contract.

Both Branch and General agents may elect to receive commission loan advances, or they may choose to be paid commissions "as earned". When an agent applies for an appointment with the Company as a branch or general agent, the agent licensing department checks the agent's background by the following method: Review agent's application for appointment.

1. Review agent's application for appointment
2. Check NAIC list
3. Check Vector
4. Check any past record with the Company.

In accordance with the Felony Violent Crime Act, the company will not appoint an agent who has a felony record nor who owes money to another company, or who has NAIC records of suspensions, fines, or any other serious allegations of wrongdoing. If the agent is approved for appointment, then an identification number is assigned to him or her. The computer system is updated to include the agent's profile, which includes the states in which he or she is authorized to write business and the products that he or she is licensed to sell.

Recommendations: It is recommended that this procedure be modified to include utilization of measurement structures to test the functioning of the procedure as well as the ability to make revisions when necessary.

Procedure 21 – Producer Defalcation Procedure

Observations: The Company does not have a written procedure for producer defalcation.

Agents from time to time will collect monies to pay the initial premiums or pay the balance of a premium. The funds are collected from an applicant or policyholder and the monies are not transmitted to the Company immediately. The licensing department contacts the legal department for instructions as the first step in the investigation. The Company then asks for proof of payments and a copy of front and back of the cancelled check. The policyholder and applicant are assured they will be contacted as soon as the company has appropriate time to investigate.

If the investigation reveals that the agent inappropriately failed to remit any monies to the home office, termination of the agent is appropriate both with the company and with the state insurance department. Any further action against the agent is handled based on the recommendation and advice of the legal department.

Recommendations: None.

Procedure 22 – Prevention of Use of Persons with Felony Conviction Procedure

Observations: The Company does not have a written procedure for prevention of use of persons with felony conviction procedure.

It cannot be determined with the information provided to the Examiners whether the use of persons with felony conviction process is accessible and provided to persons subject to its provisions or if the process is performing as intended and being utilized by the persons affected.

Background checks are conducted for states requiring a background search, or if requested by the Company, upon specific agents from time to time. The agents name, social security number and date of birth are used as a guideline. The vendor used for background search is Interstate Background Research. The turn around time is approximately three (3) days. In addition, the person requesting an agent's status is required to file a data sheet that inquires as to whether or not the agent has ever been convicted of a felony.

Company employees have background checks conducted by Checkpoint, an entity that is qualified to run background checks and can retrieve someone's records for the past 7 years. Checkpoint reviews public records for entries such as felony convictions, pending felony convictions, certain misdemeanors, and pending misdemeanors for a period of seven (7) years.

Recommendations: It is recommended that the company formulate, adopt and implement a written procedure for the prevention of the employment of persons with a felony conviction. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure and as well as the ability to make revisions as necessary.

Procedure 23 – Policyholder Service Procedure

Observations: The Company does not have a policyholder service procedure. The Examiners reviewed several items purporting to be the written procedure; however these were merely an ad hoc description of a process used in the absence of written procedures. Since these ad hoc processes are not subject to management's reporting, oversight or control, there is a high likelihood that inconsistency in their application will result.

The Examiners were provided a written summary of the policyholder service activities. Specific version dates or revision history was not provided to the Examiners. Policyholder service requests at the Company are reliant upon the availability of the mainframe. Multiple mainframe screens are used in processing the policyholder service requests. All training is conducted via on the job through management and employees. Regularly scheduled continuing education meetings are also performed according to the Company. No additional information was provided regarding the education meetings.

According to the Company, real time hourly, daily and weekly reporting tools are provide statistical information including the quantity, type of call and level of service received by customer during call to the Company. All calls are recorded for evaluation and continuing education purposes. No other information regarding these tools or reports was provided to the Examiners.

This process underwent a significant change in January 2004. A new telephone system and software was introduced to increase the quality and statistical tracking of calls.

Information relating to measurement structures and oversight structures was not provided.

Recommendations: It is recommended that the company formulate, adopt and implement a written Policyholder service procedure. This procedure should include version and revision history. It is also recommended that the procedure address utilization of measurement and oversight structures, as well as compliance with applicable statutes and regulations.

Procedure 24 – Premium Billing Procedure

Observations: The Company does not have a written premium billing procedure. The Examiners reviewed several items purporting to be the written procedure; however these were merely an ad hoc description of a process used in the absence of written procedures. These ad hoc processes are not subject to management reporting or controls and may lead to an inconsistent application of management's intentions

The company provided the Examiners a written overview of the premium billing process. Employees involved in premium billing practices only receive on the job training. Compliance with Delaware's statutes or regulations could not be determined based upon a review of the information provided to the Examiners. The overview did not contain version dates or a revision history.

The overview of the premium billing process is as follows according to the Company:

The policy administration system automatically generates a premium notice for all policies that have an active status code. Counts of billed policies are reconciled to notices mailed. Reconciliation of notices projected to be billed to the notices actually billed and mailed, as well as any other discrepancies is performed by the Quality Assurance department. These investigation and resolution processes are performed daily. The premium billing process has not changed within the past ten (10) years, with the exception of the automation of manual processes or new equipment being implemented.

Balancing processes performed on premium billing notices created by the system trigger detection of any errors and discrepancies are resolved prior to the billing cycle completion. No other information regarding the actual process was provided to the Examiners.

Information relating to measurement structures in place to test the functioning of the process was provided for review. The Company needs to incorporate these measurements into a written procedure.

Recommendations: None.

Procedure 25 – Correspondence Routing Procedure

Observations: The Company does not have a written policy issuance procedure. The Examiners reviewed several items purporting to be the written procedure; however these were merely an ad hoc description of a process used in the absence of written procedures. These ad hoc processes are not subject to management reporting or control and may lead to an inconsistent application of management’s intentions.

The company provided the Examiners a written overview of the correspondence routing process. No conflicts with Delaware’s statutes or regulations were noted. No version date or revision history was provided.

The Company provided the following overview of its correspondence routing activities.

Correspondence is received each business day in the mail. Mail is opened, date stamped, and sorted to the correct department on a daily basis. Any policyholder correspondence is delivered directly to the policy service department. A secondary sort is then completed within the policyholder service department to divide correspondence into specific work groups.

The correspondence is then counted and batched with a cover sheet including date received and page information. Once batched and tagged, correspondence is then distributed to the correct policy service employees for handling. The goal for all policy service correspondence is two days.

Daily and weekly reports are produced in which all correspondence inventory and date information is tracked and reviewed by management. Workflow process is then adjusted due to these reports. The process has not been modified for the last three years. Experience of the management and policy service staff is shared with new employees through daily interaction, on the job training and regular continuing education meetings.

Information relating to measurement structures in place to test the functioning of the process were provided, however these should be incorporated into a written procedure.

Recommendations: It is recommended that the company formulate, adopt and implement a written correspondence routing procedure. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure as well as the ability to revise the procedure as necessary.

Procedure 26 – Policy Issuance Procedure

Observations: The Company does not have a written policy issuance procedure. The Examiners reviewed several items purporting to be the written procedure; however these were merely an ad hoc description of a process used in the absence of written procedure.

These ad hoc processes are not subject to management reporting or control and may lead to an inconsistent application of management's intentions

The company provided the Examiners a written overview of the policy issuance process. No version date or revision history was provided.

The company states that most applications are entered and verified into the new business computer system within two days of receipt. These applications are passed by the edits of the new business system and are issued the same day as they are verified by data entry. Adult exception applications are reviewed the same day they are verified and juvenile applications are reviewed the day after being verified.

As soon as all exceptions are completed, the policy is issued the same day. Policies are assembled the day after the application is approved, and are mailed the following day. All policies before being put into the production environment are reviewed and approved by the Actuarial, Compliance and Policy Issue departments. As the computer is printing the entire policy, the computer produces error reports regarding any tasks the computer could not complete. The error messages indicate what the problem is and the policy issue staff takes the necessary actions to correct the problem.

There is a daily report that independently balances policy issued versus policy printed for the previous day. Edit reports are also produced by the policy printing computer system. These reports alert the policy issuance team as to what aspects of the printing process could not be completed.

The company states that the policy issue procedure was adopted in the mid 1980's, and the only revision change has been changing from hand assembly of the policy to machine assembly in December 2002.

All training of employees within this process is performed on the job therefore no formal procedure is available in regards to training.

Information relating to measurement structures in place to test the functioning of the process was not provided to the Examiners.

Recommendations: It is recommended that the company formulate, adopt and implement a written policy issuance procedure. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure as well as the ability to revise the procedure when necessary.

Procedure 27 – Reinstatement Procedure

Observations: The Company does not have a written reinstatement procedure. The Examiners reviewed several items provided by the Company purporting to be the written procedure; however these were merely an ad hoc description of a process used in the

absence of written procedure. These ad hoc processes are not subject to management's reporting or control and may lead to an inconsistent application of management's intentions.

The Company provided the Examiners a written overview of the reinstatement process. In the absence of written procedure, the Company relies on the experience of its management staff to ensure proper steps are followed and that quality checks are performed. Compliance with Delaware's statutes or regulations could not be determined based upon the information provided to the Examiners. No version date or revision history was provided with the written overview. The reinstatement process has changed only to accommodate the automation of manual processes or new plans as they become eligible for reinstatement.

The Company provided the following overview of the reinstatement process.

Payments received on policies that have lapsed and require reinstatement are returned to the policyholder along with the payment received and the appropriate reinstatement application. When the reinstatement application is returned to the Company, it is reviewed by the Underwriting division and a decision is made based upon the information provided. The premium is then applied if the reinstatement is approved, and the status of the policy is updated in the Company's systems. A notice is mailed to the applicant if reinstatement is declined and the premium is returned.

All premiums applied are balanced to accepted premium reports and deposit totals. Specially trained clerks and supervisors handle the payments returned to policyholders. No other information was provided to the examiners regarding this specialty training. All letters and reinstatement applications sent to policyholders are systematically tracked and noted to policy history. Balancing procedures performed using reports created by the reinstatement system are completed daily and all errors are resolved with supervisory staff monitoring timeliness of completion. . No other information regarding these reports was supplied to the Examiners.

Information relating to measurement structures in place to test the functioning of the process were provided, however, this information should be incorporated into a written procedure

Recommendations: It is recommended that the company formulate, adopt and implement a written reinstatement procedure. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure as well as the ability to revise the procedure as necessary.

Procedure 29 – Credible Coverage Procedure

Observations: The Company does not have a written credible coverage procedure. The examiners were provided a written scenario with respect to underwriting Medicare supplement policy applications within an open enrollment period. A brief description of

attributes the company looks for in reference to a Medicare supplement policy open enrollment application is provided within the written response to the Credible Coverage procedure. The definitions of “continuous credible coverage” is included, as well as exclusion elements that the Company does not consider as “credible coverage” in relation to certain benefit scenarios. No other information was provided to the Examiners regarding creditable coverage procedures.

Information relating to measurement structures, oversight structures and compliance with applicable statutes or regulations was not provided.

Recommendations: None.

Procedure 30 – Premium Determination and Quotation Procedure

Observations: The Company does not have a premium determination and quotation procedure. The Examiners reviewed several items provided by the Company purporting to be the written procedure; however these were merely an ad hoc description of a process used in the absence of written procedure. These ad hoc processes are not subject to management’s reporting or control and may lead to an inconsistent application of management’s intentions.

The Examiners were provided a written summary of the Company’s premium determination process for life and health products. According to the Company, these processes were initially established in the mid 1990’s. Specific version dates or revision history was provided to the Examiners. Minor changes have been made in the past three years, such as graphical displays of premium rates, however but no other specific details were provided.

The company states that premiums are confirmed for accuracy by verifying that the rates are consistent and reasonable by age gender and face amount. Additionally the company verifies that the target profit measure is still achieved after the smoothing of the premiums between the pricing point age premiums. The Company also compares the new rates to Globe Life and Accident Insurance rates in the same or similar market. Additional information regarding these verifications was not provided to the Examiners.

Information relating to measurement structures, oversight structures and compliance with applicable statutes or regulations was not provided.

Recommendations: None.

Procedure 31 – Policyholder Disclosures Procedure

Observations: The Company does not have a policyholder disclosure procedure. The examiners were provided a copy of the policyholder disclosure policy and privacy notice, which is printed on every welcome letter from the Company, as well as all billings, rate

increase letters and other correspondence. The privacy policy explains what information the Company collects, how they use it as well as opt out procedures for the applicant. The policy also describes the security and confidentiality issues regarding the information collected and compliance policy with the HIPPA privacy rule. Specific version dates or revision history was not provided to the Examiners regarding the privacy policy.

On a monthly basis, the Company runs a system process to generate a notice to all those who have not received a notification through a mailing method to ensure each policyholder receives a privacy notice at least once a year.

With respect to authorizations and disclosures, the Company provided the Examiners several booklets that are also provided to policyholders. These included a privacy and disclosure information booklet for life and underage health insurance applicants.

Information relating to measurement structures, oversight structures and compliance with applicable statutes or regulations was not provided.

Recommendations: It is recommended that the company formulate, adopt and implement a written Policyholder disclosure procedure. This procedure should include version and revision history. It is also recommended that the procedure address utilization of measurement and oversight structures.

Procedure 32 – Underwriting and Selection Procedure

Observations: The Company does not have a written underwriting and selection procedure for use by the Underwriting department. The Examiners reviewed several items provided by the Company purporting to be the written procedure; however these were merely an ad hoc description of a process used in the absence of written procedures. These ad hoc processes are not subject to management reporting or control and may lead to inconsistent application of management's intentions.

The Examiners reviewed a copy of the Company's agent manual regarding underwriting and select benefit rider instructions for both life and health products. According to the Company, all business is acquired through agent written applications. Also provided to the Examiners was a written summation of the underwriting and selection process, regarding all policies. This process was originally created in the mid 1990's and according to the Company has been gradually automated over the past years. This automation included the addition of scanning and electronic storing of all applications in 2003. The review of aged files (those over ninety (90) days old or thirty-five (35) days since last pending) was changed from a manual to an automated process in 2004.

Any application that requires additional medical information is immediately referred to the Underwriting department for review. Based upon particulars of the case medical requirements are automatically assigned to the system.

Additional pending requirements are obtained from the agents via electronic file messages sent to the branch or agency office.

The Company's underwriting file consists of an image of the application, payment authorization form, and if applicable, the replacement notice and other state mandated forms. A copy of the policy cannot be reproduced upon demand. A true copy of the declination or withdrawal letter cannot be produced but a sample of the text can be provided upon request. The Underwriting department uses the Swiss Re reinsurance manual to assist in its underwriting decisions. This manual was not provided to the Examiners.

According to the Company, measurement structures used within this process include the following:

- Applications that remain pending are listed on a daily system generated report. Additional information received on each pending case is reviewed daily by the underwriter or junior underwriting clerk to determine if all pending requirements have been satisfied. Based upon the information received, new pending requirements can be requested or the application can be approved for issue, declination, cancellation or withdrawal.
- If a policy is pending for more than ninety (90) days from input, it appears on a report generated twice per month. This report is reviewed by either the vice president or the underwriting manager to ensure all cases are being worked. If there are no indications of such (no pending requirements, aged follow up dates), the vice president or manager refers the case to the applicable underwriter for review.
- If a pending policy has not had a pending message for more than thirty-five (35) days from the current date, it appears on a system report reviewed by the vice president or manager on a daily basis. If needed, it is referred to the individual handling the case for appropriate action.

No other information regarding measurement structures was provided to the Examiners.

Information relating to measurement structures in place to test the functioning of the process was provided to the Examiners, however no examples were provided.

Recommendations: It is recommended that the company formulate, adopt and implement a written underwriting and selection procedure for use by all underwriters. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure and as well as the ability to make revisions as necessary.

Procedure 33 – Rate and Form Filing Procedure

Observations: The Company does not have a rate and form filing procedure. The Examiners reviewed several items provided by the Company purporting to be the written

procedure; however these were merely an ad hoc description of a process used in the absence of written procedures. These ad hoc processes are not subject to management reporting or control and may lead to an inconsistent application of management's intentions.

The Examiners were provided a written summary of the rate and form filing process. Specific version dates or revision history was not provided to the Examiners.

The Compliance department at the Company, after appropriate approval of senior management and individual departments, file all forms. New rates for excising health forms are filed directly by the Actuarial department.

According to the Company, step-by-step instructions vary with each state, line of business, and type of form. The Compliance department works with the most previous filing of a similar nature and checks with the states' Department of Insurance websites for specific updates to state forms

Information relating to measurement structures, oversight structures and compliance with applicable statutes or regulations was not provided.

Recommendations: None.

Procedure 34 – Termination Procedure

Observations: The Company does not have a written termination procedure. The Examiners reviewed several items provided by the Company purporting to be the written procedure; however these were merely an ad hoc description of a process used in the absence of written procedures. These ad hoc processes are not subject to management reporting or control and may lead to an inconsistent application of management's intentions.

The Examiners were provided a written summary of the Company's policy rejection and rescission processes. Specific version dates or revision history was not provided to the Examiners.

Information relating to measurement structures, oversight structures and compliance with applicable statutes or regulations was not provided.

Recommendations: It is recommended that the company formulate, adopt and implement a written termination procedure. This procedure should include version and revision history. It is also recommended that the procedure address utilization of measurement and oversight structures.

Procedure 35 – Underwriting File Documentation Procedure

Observations: The Company does not have a written underwriting file documentation procedure. The Examiners reviewed several items provided by the Company purporting to be the written procedure; however these were merely an ad hoc description of a process used in the absence of written procedures. These ad hoc processes are not subject to management reporting or control and may lead to inconsistent application of management's intentions

The company provided the Examiners a written overview of the underwriting file documentation process. No version date or revision history was provided.

The written process detailed the paper flow, from receipt in the mailroom until final disposition of each proposed insured. This paper flow included details on all imaging, verification coding and extraction techniques used for all underwriting files. Editing and sorting information was also provided within the process. All specific state requirements regarding signatures are followed. No conflict with Delaware's statutes or regulations was noted

The Company states that each week reports are prepared that detail the issue rate of various segments of business. The issue rate report shows the number of records that are still pending for each segment of business. This report also details the history of records over the past fourteen (14) weeks. All records have a final disposition after ninety (90) days. Any aberration in the pattern calls for an immediate inquiry as to why records are pending for an unusual amount of time. When that report is completed, another report is prepared that analyzes the immediate issue rate, the immediate rejection rate, and the pending rate for these segments. Each weekly result is compared to historical averages to ensure that the computer processing system is working properly.

The Company also creates a daily report that details the reasons for records being rejected. Historical comparisons are made to illustrate any irregularities. The issue date reports were introduced in December 2001. Rejection record reports were introduced "around" 1999, however no formal date was provided. No additional information was provided to the Examiners regarding these reports.

Although the process does contain various reporting tools, it cannot be determined with the information provided to the Examiners if the process is accessible and provided to persons subject to its provisions or if the process is performing as intended and being utilized by the persons affected. Information relating to measurement structures to test the functioning of the process was provided, however, these should be incorporated into a written procedure. No information regarding revisions of the process within the last three years was provided.

Recommendations: It is recommended that the company formulate, adopt and implement a written underwriting file documentation procedure. It is also recommended that the procedure address utilization of measurement structures, including the existing reports, to test the functioning of the procedure as well as the ability to make revisions as necessary.

Procedure 36 – Underwriting Training Procedure

Observations: The Company does not have a written underwriter training procedure. The Examiners reviewed several items provided by the Company purporting to be the written procedure; however these were merely an ad hoc description of a process used in the absence of written procedures. These ad hoc processes are not subject to management reporting or control and may lead to an inconsistent application of management's intentions. No version date or revision history was provided.

The company provided the Examiners a written overview of the underwriter process, not the training process itself. No formal training process or procedure exists for underwriter training. Underwriters are encouraged to take selection of risks specialty classes offered by the Life Office Management Association, or LOMA. LOMA is an association that develops and administers educational materials and examinations for the life insurance industry. Upon completion of the course of study the FLMI designation is granted. Supervisors periodically review underwriters' work and the chief underwriter holds occasional meetings to discuss various underwriting related topics, however no official timeline or copies of these reports and meetings were provided to the Examiners.

According to the Company the new business underwriter computer system selects, by predetermined edit criteria, those records that are to be reviewed by the underwriter. The underwriter is given three choices on the computer screen: issue a standard policy, reject the application, or route the record to an outside source for additional information. If the record comes to the underwriter due to an MIB match, the underwriter chooses to either send a letter to the proposed insured requesting additional information or an employee calls the insured and asks for the necessary information.

Once the additional information is received, the underwriter again considers the application choices: issue a standard policy, reject the application or issue a high or low substandard policy.

Daily reports are reviewed weekly by the chief underwriter or department vice president that detail the ratio of decisions that are being made initially to those being made after additional information is received after telephone calls are made to the proposed insured. Periodic audits for the MIB are performed to ensure that the procedures are being followed. The Company monitors the weekly rejection report to ensure consistency. MIB advises the Company if the ratio of MIB requests is out of line with the number of MIB reports submitted to them. Management also reviews reports that illustrate the number of substandard issues and the flow of these issues within the underwriting process. No other information regarding these reports was provided to the Examiner.

Information relating to measurement structures in place to test the functioning of the process was not provided to the Examiners.

Recommendations: It is recommended that the company formulate, adopt and implement a written underwriter training procedure. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure as well as the ability to make revisions as necessary.

Procedure 37 – Insured or Member Enrollment Procedure

Observations: The Company does not have an insured or member enrollment procedure. The Examiners reviewed several items provided by the Company purporting to be the written procedure; however these were merely an ad hoc description of a process used in the absence of written procedures. These ad hoc processes are not subject to management reporting or control and may lead to an inconsistent application of management's intentions.

The Company states that the only products it issues are accidental death and dismemberment policies or Medicare supplement policies. Both products are solicited via mail. There are no health questions on the accident policy applications and only yes/no type questions on the Medicare supplement application. No actual written process exists therefore there are also no version dates or revision history. According to the Company, a verbal process has been in place for years. The only change occurring within 2004 was when the Company replaced manual edits that the new balance clerks were performing with computer editing, thus reducing errors. No other information was provided to the Examiners.

Information relating to measurement structures, oversight structures and compliance with applicable statutes or regulations was not provided.

Recommendations: None.

Procedure 38 – Continuation of Benefits Procedure

Observations: The Company does not have a continuation of benefits procedure. The Company assumed that the procedure request was asking for information related to the living benefits department.

The information supplied to the Examiners regarding this procedure was a brief description of United American's non-forfeiture options, which are reduced and extended term options. No other information was supplied to the Examiners regarding this issue.

It cannot be determined with the information provided to the Examiners whether the process or procedure in place is accessible and provided to persons subject to its provisions. It cannot be determined if the process is performing as intended and being utilized by the persons affected. Information relating to measurement structures,

oversight structures and compliance with applicable statutes or regulations was not provided.

Recommendations: None.

Procedure 40 – Staff Training Procedure

Observations: The examiners reviewed several staff training procedures included within the Company's employee handbook, two risk control tracking system handbooks for assessors and reviewers and the Sarbanes-Oxley internal control documentation training manual. These procedures are clear, readable, organized and available to persons needing access to or affected by the procedure. No audit history has been supplied to the Examiners regarding these procedures. Information relating to oversight, measurement and measurement usage was not provided for these procedures.

The employee handbook outlined multiple employment policies and on the job procedures. The official version date of the employee handbook was not provided, however terminology within the handbook included references to the year of 2003. All employees are required to sign a form confirming receipt and comprehension of the handbook.

All of the staff training is performed on the job. The Human Resources department conducts training periodically on specific topics for managers. These topics include: leadership development, sexual harassment and other legal issues. According to the Company, new employees receive a brief orientation the first day of work. This orientation includes introduction to the time clock, absentee guidelines, and employee benefits.

The risk control stacking system (RCTS) manual provides the assessor and reviewer employees with a detailed, step-by-step procedure on how to perform the various control, documentation and tracking devices within the web based application. These attributes in detail include:

- warehousing all controls the assessor or reviewer documented in Excel spreadsheets
- documenting the results of internal audit departments testing of controls
- automate the tracking of control effectiveness gaps (e.g., action items)
- document electronically management's assessments of the control metrics; and
- document electronically management's review of the assessment of the control metrics.

The version date of the RCTS manuals is January 17, 2005. This software was purchased from an outside accounting vendor. No other information was provided to the Examiners regarding these RCTS manuals.

The Company also established a manual and training seminar to inform, update and equip all employees on the significance of the Sarbanes-Oxley Act. Throughout the manual and seminars, the employee is presented with information needed to perform internal control documentation, as well as testing and maintenance for compliance with the Act. The dates provided to the Examiners was September 12 and 13, 2003 for the seminar and manual presentation in the Company's McKinney and Waco Texas offices, and September 19 and 20, 2003 for the Birmingham and Oklahoma City offices. No other version/seminar dates or additional information was provided to the Examiners.

Recommendations: It is recommended that the Company implement a procedure that addresses utilization of measurement structures to test the functioning of the procedure and revise the procedure when indicated.

Procedure 41 – HIPAA Compliance Procedure

Observations: The Company has a written HIPPA compliance procedure in place. The information provided to the Examiners included the Company's privacy policies and procedures, Health Insurance Notice of Privacy Practices authorization form provided to prospective policyholders, business associate agreements that deal directly with the Company's privacy policy and HIPPA compliance in association with agents and third party vendors. The procedures are clear, readable, organized and available to persons needing access to or affected by the procedure. The procedure does not appear to conflict with Delaware's statutes or regulations. The version date of the privacy policy and procedures is April 14, 2003.

No information regarding measurement structures was provided. No information was provided to determine if management exercises oversight and control of the process.

The HIPAA authorization form outlines the purpose of the Act, a client's rights and a listing of the lawful disclosure purposes in regards to medical information. The Company provides the client, per request, a form that will allow disclosure of medical information with written consent, as well as allowing additional restrictions to be put in place in regards to medical history. Contact information for any actions or complaints regarding this Act and the notice is clearly defined.

Recommendations: None.

Procedure 42 – Adjuster Training Procedure

Observations: The Company does not have an adjuster training procedure. The Examiners reviewed several items provided by the Company purporting to be the written procedure; however these were merely an ad hoc description of a process used in the

absence of written procedures. These ad hoc processes are not subject to management reporting or control and may lead to inconsistent application of management's intention.

The examiners were provided a written summary of the adjuster training process. Specific version dates or revision history was not provided to the Examiners. All adjusters receive on the job training. A trainer/supervisor monitors the adjusters performance for three (3) to four (4) months. The adjuster is then provided with a low approval limit with supervisor review authority until he or she gains experience. Auditors conduct random audits of claims both under and over the adjuster's approval limits. No other information was provided regarding the adjuster audits or training.

Information relating to measurement structures, oversight structures and compliance with applicable statutes or regulations was not provided.

Recommendations: It is recommended that the company formulate, adopt and implement a written adjuster training procedure. This procedure should include version and revision history. It is also recommended that the procedure address utilization of measurement and oversight structures.

Procedure 43 – Claim Handling Procedure

Observations: The Company does not have a written claim handling procedure. The Examiners reviewed several items provided by the Company purporting to be the written procedure; however these were merely an ad hoc description of a process used in the absence of written procedures. These ad hoc processes are not subject to management reporting or control and may lead to an inconsistent application of management's intentions.

The company did provide to the Examiners a comprehensive description of the process used for handling all health and life claims both contestable and uncontestable. No version date of the process was provided to the Examiners.

For contestable life claims, once all information is received the Underwriting and Legal departments review the file and the claim, and may be paid based upon several internal evaluations of the claim.

For non-contestable life claims, when proof of loss information is received, an examiner reviews the claim material. Data related to the claim is imputed into the computer based death claims system. The system determines if there is any loan balance on the policy, determine if a refund of unearned premium is due and then calculated the interest that is due, if applicable. Audits are performed by employees and a check is released on the claim.

For health claims, the Company states that all claims are received in a central mailroom for processing. All claims are logged into the claim computer system for review. If all

claim information is complete, the claim is keyed into the system for payment. If more information is needed to determine claim consideration, the claims examiner corresponds with the insured requesting the additional information. If a denial decision has been reached before or after additional information has been received, the claims examiner also corresponds this to the insured. No other information was provided to the Examiners regarding this process.

The Company does not have measurement structures in place to test the functioning of the procedure.

Recommendations: It is recommended that the company formulate, adopt and implement a written claim handling procedure with appropriate version dates and revision history. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure as well as the ability to make revisions as necessary.

Procedure 44 – Internal Claim Audit Procedure

Observations: The Company does not have a written internal claim audit procedure. The Examiners reviewed an item provide by the Company purporting to be the written procedure, however it was merely an ad hoc description of a process used in the absence of written procedures. The ad hoc process is not subject to management reporting or control and may lead to an inconsistent application of management’s intentions.

The Examiners were provided a written summary of the internal claim process. According to the Company, each claim examiner is given an approval limit based upon their experience and knowledge base. Any claim over their approval limit is audited by a trainer/supervisor/auditor. The auditors also conduct a random audit of claims that are under the claims examiner’s approval limits. No other information regarding this process was provided to the Examiners.

Recommendations: It is recommended that the company formulate, adopt and implement a written internal claim audit procedure. This procedure should include version and revision history. It is also recommended that the procedure address utilization of measurement and oversight structures.

Procedure 45 – Claim File Documentation Procedure

Observations: The Company does not have a claim file documentation procedure. The Examiners reviewed several items provided by the Company purporting to be the written procedure; however these were merely an ad hoc description of a process used in the absence of written procedures. These ad hoc processes are not subject to management reporting or control and may lead to inconsistent application of management’s intentions.

The Examiners were provided a written summary of the claim file documentation process used at the Company. A detailed written description was provided to the

Examiners regarding the processing of life and health claims. Specific version dates or revision history was not provided to the Examiners.

Information relating to measurement structures and oversight structures was not provided.

Recommendations: It is recommended that the company formulate, adopt and implement a written claim file documentation procedure. This procedure should include version and revision history. It is also recommended that the procedure address utilization of measurement and oversight structures.

Procedure 47 – Reserve Establishment Procedure

Observations: The Company does not have a written reserve establishment procedure. The Examiners reviewed several items purporting to be the written procedure, but these were merely an ad hoc description of a process used in the absence of a written structure. These ad hoc processes are not subject to reporting or control and may lead to inconsistent application of management intent.

The company provided to the Examiners a written description of the process used for reserve establishment. The Company states that this process has been in place in excess of 25 years, but not actual date was provided to the Examiners relating to the origin of this process. The Company states that experienced individuals with many years of actuarial training work within the valuation area thus no written procedure exists. No conflict with Delaware statutes or regulations was noted.

According to the Company, the actuarial department computes actuarial reserve factors equal to the actuarial present value of benefits less the actuarial present valuation net premiums, which are loaded into the Company's mainframe computer system.

At each valuation date, the computer mainframe valuation system extracts information coverage from the master file. The valuation system takes the extracted file of in force coverage and matches it against the statutory factor file. In force times the reserve factor result in the policy reserve appropriate for each coverage. Thus, claim reserves and liabilities are established based on expected future claim payments.

Management reviews reserves for reasonableness and compliance with applicable statutory guidelines. The Company's appointed actuary completes an opinion as of the adequacy of reserves. Error reports are generated by the system and reviewed by the actuarial personnel. Corrections are made to the factors to avoid errors when necessary. Reserves are manually established for policies that error out of the mainframe valuation system and particular valuation date. No other information was provided to the Examiners regarding this management review process or error reports. Information relating to measurement structures in place to test the functioning of the process was not provided to the Examiners.

Recommendations: None.

SUMMARY

United American Insurance Company is a Delaware domiciled company. United American markets senior life and health insurance products, include guaranteed renewable Medicare supplement coverages and long-term care insurance.

The examination was a limited scope market conduct examination of the following business areas: Company Operations/Management, Complaint Handling, Marketing and Sales, Producer Licensing, Policyholder Service, Underwriting and Rating, and Claims.

Significant issues arising during the course of the examination include:

- Lack of written procedures for eighteen (18) of forty-four (44) procedures examined; and,
- Lack of measurement for ten (10) of the written procedures that the company did have in operation.

Recommendations have been made to address the areas of concern noted during the examination. These are summarized below.

LIST OF RECOMMENDATIONS

Procedure 01 – Audit Procedure (Internal and External)

It is recommended that the Audit Procedure address utilization of measurement structures to test the functioning of the procedure for Audit and revise the procedure when indicated.

Procedure 03 – Company records, Central Recovery and Backup Procedure

It is recommended that the Company creates a formal written procedure for Company records, central recovery and backup and establishes measurement structures to test the functioning of the procedure and that management utilize the results of its measurement structures. It is also recommended that management implement procedural revisions during the past three years, if warranted on the results of findings in its measurement structures.

Procedure 05 – Anti Fraud Procedure

It is recommended that the Company establish measurement structures to test the functioning of the procedure for Anti-Fraud and that management utilize the results of it

measurement structures. It is also recommended that management implement procedural revisions, if warranted on the results of findings in its measurement structures.

Procedure 06 – Disaster Recovery Procedure

It is recommended that the company formulate, adopt and implement a written procedure for Disaster Recovery. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure and revise the procedure when indicated.

Procedure 08 – Vendor Oversight and Control Procedure

It is recommended that the company formulate, adopt and implement a written procedure for Vendor Oversight and Control. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure and revise the procedure when indicated.

Procedure 09 – Customer and Consumer privacy protection Procedure

It is recommended that the Company establish measurement structures to test the functioning of the procedure for Customer and Consumer privacy protection and that management utilize the results of its measurement structures. It is also recommended that management implement procedural revisions during the past three years, if warranted on the results of findings in its measurement structures.

Procedure 11 – Complaint Handling Procedure

It is recommended that the Company create measurement structures in place to test the functioning of the procedure for Complaint Handling and management utilize the results of its measurement structures. It is also recommended that management implement procedural revisions during the past three years, if warranted on the results of findings in its measurement structures.

Procedure 12 – Grievance Handling Procedure

It is recommended that the Company establish measurement structures in place to test the functioning of the procedure for Grievance Handling and management utilize the results of its measurement structures. It is also recommended that management implement procedural revisions, if warranted on the results of findings in its measurement structures.

Procedure 13 – Advertising, Sales and Marketing Procedure

It is recommended that the procedure for Advertising, sales and marketing address utilization of measurement structures to test the functioning of the procedure for Advertising, sales and marketing and revise the procedure when indicated.

Procedure 14 – Agent Produced Advertising Procedure

It is recommended that the Company establish measurement structures to test the functioning of the procedure for Agent produced advertising and that management utilize the results of its measurement structures. It is also recommended that management implement procedural revisions during the past three years, if warranted on the results of findings in its measurement structures.

Procedure 15 – Producer Training Procedure

It is recommended that the procedure for Producer Training address utilization of measurement structures to test the functioning of the procedure and revise the procedure when indicated.

Procedure 16 – Replacement Procedure

It is recommended that the Company creates a formal written procedure for Replacement and establishes measurement structures to test the functioning of the procedure and that management utilize the results of its measurement structures. It is also recommended that management implement procedural revisions during the past three years, if warranted on the results of findings in its measurement structures.

Procedure 20 – Producer Selection, Appointment and Termination Procedure

It is recommended that the procedure for Producer Selection, Appointment and Termination should include utilization of measurement structures to test the functioning of the procedure and revise the procedure when indicated.

Procedure 22 – Prevention of Use of Persons with Felony Conviction Procedure

It is recommended that the company formulate, adopt and implement a written procedure for Prevention of use of persons with felony convictions. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure and revise the procedure when indicated.

Procedure 23 – Policyholder Service Procedure

It is recommended that the company formulate, adopt and implement a written Policyholder service procedure. This procedure should include version and revision history. It is also recommended that the procedure address utilization of measurement and oversight structures, as well as compliance with applicable statutes and regulations.

Procedure 25 – Correspondence Routing Procedure

It is recommended that the company formulate, adopt and implement a written Correspondence routing procedure. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure and revise the procedure when indicated.

Procedure 26 – Policy Issuance Procedure

It is recommended that the company formulate, adopt and implement a written Policy Issuance procedure. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure and as well as the ability to make revisions as necessary.

Procedure 27 – Reinstatement Procedure

It is recommended that the company formulate, adopt and implement a written Reinstatement procedure. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure as well as the ability to make revisions as necessary.

Procedure 31 – Policyholder Disclosures Procedure

It is recommended that the company formulate, adopt and implement a written Policyholder disclosure procedure. This procedure should include version and revision history. It is also recommended that the procedure address utilization of measurement and oversight structures.

Procedure 32 – Underwriting and Selection Procedure

It is recommended that the company formulate, adopt and implement a written Underwriting and selection procedure for all underwriters. It is also recommended that the procedure address utilization of measurement structures to test the functioning well as the ability to make revisions as necessary.

Procedure 34 – Termination Procedure

It is recommended that the company formulate, adopt and implement a written Termination procedure. This procedure should include version and revision history. It is also recommended that the procedure address utilization of measurement and oversight structures.

Procedure 35 – Underwriting File Documentation Procedure

It is recommended that the company formulate, adopt and implement a written Underwriting File Documentation procedure. It is also recommended that the procedure address utilization of measurement structures, including the existing reports to test the functioning of the procedure as well as the ability to make revisions as necessary.

Procedure 36 – Underwriting Training Procedure

It is recommended that the company formulate, adopt and implement a written Underwriter Training procedure. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure as well as the ability to make revisions as necessary.

Procedure 40 – Staff Training Procedure

It is recommended that the Staff Training procedure address utilization of measurement structures to test the functioning of the procedure and revise the procedure when indicated.

Procedure 42 – Adjuster Training Procedure

It is recommended that the company formulate, adopt and implement a written Adjuster training procedure. This procedure should include version and revision history. It is also recommended that the procedure address utilization of measurement and oversight structures.

Procedure 43 – Claim Handling Procedure

It is recommended that the company formulate, adopt and implement a written Claim Handling procedure with appropriate version dates and revision history. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure as well as the ability to make revisions as necessary.

Procedure 44 – Internal Claim Audit Procedure

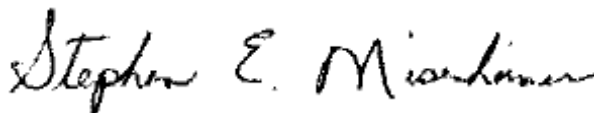
It is recommended that the company formulate, adopt and implement a written Internal Claim Audit procedure. This procedure should include version and revision history. It is also recommended that the procedure address utilization of measurement and oversight structures.

Procedure 45 – Claim File Documentation Procedure

It is recommended that the company formulate, adopt and implement a written Claim File Documentation procedure. This procedure should include version and revision history. It is also recommended that the procedure address utilization of measurement and oversight structures

CONCLUSION

The examination was conducted by Donald P. Koch, Stephen E. Misenheimer, Sean Connolly, and Candace Reese and is respectfully submitted,



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